

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hamburg Township Library	County Livingston
Fiscal Year End June 30, 2006	Opinion Date August 9, 2006	Date Audit Report Submitted to State September 26, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34'as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel LLP		Telephone Number 734-453-8770	
Street Address 1034 W. Ann Arbor Trail		City Plymouth	State MI
Zip 48170			
Authorizing CPA Signature 	Printed Name Rana M. Emmons, CPA	License Number 22716	

HAMBURG TOWNSHIP LIBRARY
Livingston County, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2006

HAMBURG TOWNSHIP LIBRARY
For the Year Ended June 30, 2006

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FINANCIAL SECTION

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Independent Auditor's Report

August 9, 2006

Board of Trustees
Hamburg Township Library
Hamburg, Michigan

We have audited the accompanying financial statements of the governmental activities, unit, and the general fund of the Hamburg Township Library, Michigan, a component unit of Hamburg Township, as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hamburg Township Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Hamburg Township Library as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Hamburg Township Library
August 9, 2006

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully,

A handwritten signature in black ink, appearing to read "Post, Smythe, Lutz & Ziel". The signature is written in a cursive, flowing style.

POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

Hamburg Township Library

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Hamburg, MI 48139
810-231-1771

Management's Discussion and Analysis

As management of the Hamburg Township Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Hamburg Township Library for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the Hamburg Township Library exceeded its liabilities at the close of the most recent fiscal year by \$1,521,596 (*net assets*). Of this amount, \$1,446,223 (*unrestricted net assets*) may be used to meet the Library's ongoing obligations to creditors and future Library development of services to the public. See page 6 for information on designated and undesignated net assets.
- The Library's total net assets increased by \$46,114 from the prior year.
- As of the close of the current fiscal year, the Hamburg Township Library's governmental fund reported ending fund balance of \$1,463,879, an increase of \$25,377 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Hamburg Township Library's basic financial statements. The Hamburg Township Library's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Hamburg Township Library's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Hamburg Township Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Hamburg Township Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and vacation/sick leave earned but unused).

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Hamburg Township Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Library's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Hamburg Township Library adopts an annual appropriated budget for its general operating fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. This statement can be found on page 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Hamburg Township Library, assets exceeded liabilities by \$1,521,596 at the close of the most recent fiscal year. The Library's net assets increased by \$46,114 during the current fiscal year; with \$35,326 of this increase resulting from capital asset additions of computer servers, security cameras, and building improvements including new meeting room carpeting.

Hamburg Township Library's Net Assets

	<u>2006</u>	<u>2005</u>
Current and other assets	\$1,477,779	\$1,456,946
Capital Assets	<u>75,373</u>	<u>53,164</u>
Total Assets	<u>1,553,152</u>	<u>1,510,110</u>
Long-term Liabilities	17,656	16,184
Other Liabilities	<u>13,900</u>	<u>18,444</u>
Total Liabilities	<u>31,556</u>	<u>34,628</u>
Net Assets:		
Invested in capital assets,		
Net of related debt	75,373	53,164
Unrestricted	<u>1,446,223</u>	<u>1,422,318</u>
Total Net Assets	<u>\$1,521,596</u>	<u>\$1,475,482</u>

Governmental activities. The Hamburg Township Library's net assets increased by \$46,114 in fiscal year 2006. Key elements of this increase are as follows:

Hamburg Township Library's Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Revenues:		
Program Revenues:		
Services (Programs, book fines, copies, misc.)	\$ 17,238	\$ 17,070
Refunds	9,222	-
Operating Grants and Contributions:		
Penal Fines	96,331	86,020
Public Donations	1,765	-
General Revenues:		
Property Tax Collection	410,807	387,178
State Aid to Libraries	14,900	17,969
Bank Interest	<u>46,194</u>	<u>27,415</u>
Total Revenues	596,457	535,652
Expenses – Library Services	<u>550,343</u>	<u>538,497</u>
Increase (Decrease) in Net Assets	46,114	(2,845)
Net Assets, July 1	<u>1,475,482</u>	<u>1,478,327</u>
Net Assets, June 30	<u>\$1,521,596</u>	<u>\$1,475,482</u>

Financial Analysis of the Government's Funds

As noted earlier, the Hamburg Township Library used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Hamburg Township Library's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Hamburg Township Library's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Hamburg Township Library's general operating fund, reported ending fund balance of \$1,463,502, an increase of \$25,377 in comparison with the prior year. The entire amount of \$1,463,879 constitutes *unreserved fund balance*. The unreserved fund balance, by Library Board of Trustee vote, has designated funds for furthering the Library's mission:

- Designated funds of \$871,656 for future use on the building facility, future programs and services, and for the long term liability of ongoing vacation/sick time earned but not used.
- Undesignated funds of \$592,223 for current year operations.

Key factors in the net increase in fund balance are as follows:

- An increase in the property tax revenues of \$23,629 resulting not from a tax increase, but rather from an increase in the taxable valuations of the property within the community.
- An increase in the penal fines collected in the amount of \$10,311 over the prior fiscal year.

General Fund Budgetary Highlights

The Library Board did not amend their original adopted budget during fiscal year 2006. The original budget projected a net decrease in fund balance of \$109,334. The actual change in fund balance was an increase of \$25,377, resulting in a favorable overall variance of budget to actual of \$134,711, as detailed on page 13 of this report.

Capital Assets

The Hamburg Township Library's investment in capital assets as of June 30, 2006, amounts to \$75,373 (net of accumulated depreciation). This investment in capital assets includes building improvements of new meeting room carpeting, upgrading of computer server equipment and the addition of security cameras. The total increase in the Hamburg Township Library's investment in capital assets for the current fiscal year was \$22,209.

Hamburg Township Library's Capital Assets

	<u>2006</u>	<u>2005</u>
Buildings and Improvements	\$ 30,403	\$ 24,603
Computer Equipment	62,146	32,620
Less: Accumulated Depreciation	<u>(17,176)</u>	<u>(4,059)</u>
Capital Assets, Net	<u>\$ 75,373</u>	<u>\$ 53,164</u>

Additional information on the Hamburg Township Library's capital assets can be found in note IV.B on page 19 of this report.

Economic Factors and Next Year's Budget – July 1, 2006 to June 30, 2007

- The Hamburg Township Library Board of Trustees, for the fiscal year 2006-2007 has approved to appropriate \$103,300 from the designated and/or the undesignated funds, for the purpose of meeting, if needed, the entire proposed obligation in the budget.
- The property tax revenue is projected to increase by \$11,733 in fiscal year 2006-2007 based on an increase in taxable values of property within the community, which is a 3.0% increase.
- The Library has budgeted for additional expenditures in the fiscal year 2006-2007 for items related to operating the library facility, in the amount of \$35,590, including items for increases in utilities cost, programs, patron services, payroll, related benefits and taxes, and technology upgrades.

All of these factors were considered in preparing the Hamburg Township Library's budget for the 2006-2007 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$1,463,879. The Hamburg Township Library has appropriated \$103,300 of this amount for spending in the 2006-2007 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the Hamburg Township Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Library Director, Hamburg Township Library, 10411 Merrill Road, P.O. Box 247, Hamburg, Michigan 48139.

BASIC FINANCIAL STATEMENTS

HAMBURG TOWNSHIP LIBRARY
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 1,454,401
Receivables (net of allowance for uncollectibles)	13,416
Due from State	7,478
Prepaid Expenditures	2,484
Capital Assets (net of accumulated depreciation)	<u>75,373</u>
Total Assets	<u>1,553,152</u>
<u>LIABILITIES</u>	
Accounts Payable	8,123
Accrued Liabilities	5,777
Noncurrent Liabilities:	
Due within one year	-
Due in more than one year (vacation/sick leave)	<u>17,656</u>
Total Liabilities	<u>31,556</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, net of related debt	75,373
Unrestricted	<u>1,446,223</u>
Total Net Assets	<u>\$ 1,521,596</u>

HAMBURG TOWNSHIP LIBRARY
Statement of Activities
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
Governmental Activities:					
Cultural - Library	\$ 550,343	\$ 26,460	\$ 98,096	\$ -	\$ (425,787)
General Revenues:					
Property Taxes					410,807
State Aid to Libraries					14,900
Unrestricted Interest Earnings					46,194
Total General Revenues					471,901
Change in Net Assets					46,114
Net Assets - Beginning					1,475,482
Net Assets - Ending					\$ 1,521,596

HAMBURG TOWNSHIP LIBRARY
Balance Sheet
Governmental Fund
June 30, 2006

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 1,454,401
Receivables (net of allowance for uncollectibles)	13,416
Due from State	7,478
Prepaid Expenditures	<u>2,484</u>
 Total Assets	 \$ <u><u>1,477,779</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts Payable	\$ 8,123
Accrued Liabilities	<u>5,777</u>
Total Liabilities	<u>13,900</u>
 Fund Balance:	
Unreserved	1,463,879
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	75,373
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(17,656)</u>
 Net Assets of Governmental Activities	 \$ <u><u>1,521,596</u></u>

HAMBURG TOWNSHIP LIBRARY
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2006

	General Fund
<u>Revenues</u>	
Property Taxes Levied	\$ 410,807
State Aid to Libraries	14,900
Penal Fines	96,331
Book Fines	13,973
Charges for Services	3,096
Interest Earned	46,194
Public Donations	1,765
Refunds	9,222
Other	169
Total Revenues	<u>596,457</u>
<u>Expenditures</u>	
Current:	
Cultural - Library Operations	535,754
Capital Outlay - Building & Technology	35,326
Total Expenditures	<u>571,080</u>
Net Change in Fund Balance	25,377
Fund Balance - Beginning	<u>1,438,502</u>
Fund Balance - Ending	<u>\$ 1,463,879</u>

HAMBURG TOWNSHIP LIBRARY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental fund	\$ 25,377
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	22,209
Governmental funds report a liability for compensated absences only if they have matured, whereas the change in the total liability from prior year is reported in the Statement of Activities. This amount represents the change in the total liability for compensated absences.	<u>(1,472)</u>
Change in net assets in governmental activities	\$ <u><u>46,114</u></u>

HAMBURG TOWNSHIP LIBRARY
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ 390,223	\$ 390,223	\$ 410,807	\$ 20,584
Intergovernmental - State	15,000	15,000	14,900	(100)
Penal Fines	80,000	80,000	96,331	16,331
Book Fines	7,400	7,400	13,973	6,573
Copies	700	700	2,525	1,825
Programs	165	165	571	406
Interest Income	20,775	20,775	46,194	25,419
Donations	300	300	1,765	1,465
Refunds	-	-	9,222	9,222
Miscellaneous	130	130	169	39
Total Revenues	<u>514,693</u>	<u>514,693</u>	<u>596,457</u>	<u>81,764</u>
Expenditures:				
Salaries & Wages	334,653	334,653	303,436	31,217
Fringe Benefits	62,081	62,081	57,990	4,091
Office Supplies	13,240	13,240	12,173	1,067
Postage	4,470	4,470	4,752	(282)
Custodian/Cleaning	16,890	16,890	10,784	6,106
Secretary	321	321	294	27
Telephone	3,600	3,600	3,265	335
Utilities	30,306	30,306	28,440	1,866
Mileage	952	952	311	641
Travel	1,180	1,180	92	1,088
Workshops	1,320	1,320	1,175	145
Programs	22,140	22,140	9,489	12,651
Books	37,380	37,380	33,990	3,390
Magazines	1,968	1,968	4,561	(2,593)
Newspapers	1,055	1,055	2,120	(1,065)
Electronic Subscriptions	1,750	1,750	110	1,640
Audio	4,360	4,360	3,849	511
Music	600	600	1,046	(446)
Videos	2,000	2,000	2,979	(979)
Dues & Memberships	520	520	615	(95)
Professional Fees	21,400	21,400	12,212	9,188
Printing & Publishing	9,660	9,660	9,998	(338)
Bank Fees	768	768	750	18
Miscellaneous	6,167	6,167	784	5,383
Equipment Maintenance	7,695	7,695	7,677	18
Repairs & Maintenance	12,651	12,651	8,256	4,395
Landscape Maintenance	5,330	5,330	3,804	1,526
Office Equipment	1,020	1,020	7,269	(6,249)
Office Furniture	550	550	3,533	(2,983)
Building Improvements	8,000	8,000	5,800	2,200
Computer Equipment	10,000	10,000	29,526	(19,526)
Total Expenditures	<u>624,027</u>	<u>624,027</u>	<u>571,080</u>	<u>52,947</u>
Net Change in Fund Balance	(109,334)	(109,334)	25,377	134,711
Fund Balance - Beginning	<u>1,438,502</u>	<u>1,438,502</u>	<u>1,438,502</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,329,168</u>	<u>\$ 1,329,168</u>	<u>\$ 1,463,879</u>	<u>\$ 134,711</u>

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Library provides public library services to the residents of Hamburg Township, Michigan. As required by generally accepted accounting principles, these financial statements present the Hamburg Township Library, which is a component unit of Hamburg Township.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Governmental activities* are activities which are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
– Continued

Property taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental Funds

The Library reports only one fund, which is the General Fund. The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Amounts reported as *program revenues* on page 9 include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Library to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments are recorded at fair value.

2. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the governmental column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Capital Assets – Continued

that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building Improvements	5-15
Computer Equipment	4-5

3. Compensated Absences

In accordance with personnel policies adopted by the Library Board, employees earn sick and vacation time based on time of service with the Library. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental fund is a liability recorded in the Statement of Net Assets. The total liability at June 30, 2006 is \$17,656.

4. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The detail of this difference is as follows:

Compensated Vacation/Sick Leave Payable \$17,656

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2006

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS –
Continued

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Depreciation Expense	\$ (13,117)
Capital Outlay	<u>35,326</u>
	<u>\$ 22,209</u>

Another element of that reconciliation states that "governmental funds report the liability for compensated vacation/sick leave only if they have matured, whereas the change in the total liability is reported in the statement of activities." The change in compensated vacation/sick leave from the prior year is as follows:

Compensated Vacation/Sick Leave	<u>\$ 1,472</u>
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III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

1. Prior to June 1, the Library Director submits a proposed operating budget for the ensuing fiscal year commencing July 1. The board adopts the budget at the total fund level.
2. Public hearings are held prior to adoption.
3. Prior to June 30, the budget is enacted by passage of a resolution.
4. Formal budget integration is employed as a management control device for the General Fund.
5. The budget for the General Fund is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP).
6. Appropriations lapse at year end.
7. The Library Board may amend the budget during the year.

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2006

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balances

The Library has no funds with accumulated fund balance deficits.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated in the annual budget. In the body of the financial statements, the Library's actual expenditures and budgeted expenditures have been shown on a line item basis. The approved budget of the Library for the General Fund, which is the budgetary fund was adopted on the total fund level.

During the year ended June 30, 2006, the Library did not incur expenditures in excess of the amount appropriated.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the Library is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades. However, as the Library is a component unit of Hamburg Township, all Library funds are held in separate accounts from that of the Township. The Township manages their investment policy in accordance with the State of Michigan Public Act 20 of 1943, as amended. Also, in accordance with P.A. 164 of 1877, as amended, MCL section 397.205, the Library has no control into the direction of choosing a banking institution to deposit the Library's funds.

The following information, as required by Governmental Accounting Standards Board Statement Number 40, is presented regarding the Library's deposits and investments:

Custodial Credit Risk. In the event of a bank failure, the Library's deposits may not be recovered. Neither State law nor the Library's investment policy requires consideration of custodial credit risk. As of June 30, 2006, the Library's book balance of its deposits was \$1,454,401, including \$325 of petty cash. The bank balance was \$1,457,943 which was exposed to custodial credit risk, as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 112,900
Uninsured and Uncollateralized	<u>1,345,043</u>
Total	<u>\$ 1,457,943</u>

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments – Continued

Interest Rate Risk. The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Library's deposits and investments consisted of the following:

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Deposits and Investments:		
Savings and Checking Accounts	\$ 191,357	Demand
Bank Investment Pool	102,638	Demand
Certificates of Deposit	1,163,948	202 days

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Library's investment policy does not further limit its investment choices.

Concentration of Credit Risk. The Library's investment policy places no limit on the amount the Library may invest in any one issuer. All of the Library's investments are with a single issuer.

B. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital Assets, being depreciated:				
Buildings and Improvements	\$ 24,603	\$ 5,800	\$ -	\$ 30,403
Computer Equipment	32,620	29,526	-	62,146
Less: Accumulated Depreciation	<u>(4,059)</u>	<u>(13,117)</u>	<u>-</u>	<u>(17,176)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 53,164</u>	<u>\$ 22,209</u>	<u>\$ -</u>	<u>\$ 75,373</u>

Depreciation expense was charged to functions/programs of the Library as follows:

Governmental Activities: Cultural-Library	<u>\$ 13,117</u>
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HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Long-Term Debt

The following is a summary of long-term debt transactions of the Library for the year ended June 30, 2006:

	Balance July 1, 2005	Additional Debt Incurred	Retirements and Payments on Debt	Balance June 30, 2006	Due Within One Year
Governmental Activities:					
Compensated Absences	<u>\$16,184</u>	<u>\$ 1,472</u>	<u>\$ -</u>	<u>\$17,656</u>	<u>\$ -</u>

D. Fund Balance Designations

A detailed description of fund balance designations at June 30, 2006, is presented below:

<u>Fund Balance</u>	<u>General Fund</u>
Unreserved:	
Designated for:	
Subsequent Year's Expenditures	\$ 103,300
Building Capital Facilities	
Development	454,000
Programs and Services	
Development	400,000
Long Term Liabilities	17,656
Undesignated	<u>488,923</u>
Total Fund Balance	<u>\$1,463,879</u>

E. Property Taxes

Property taxes are assessed as of each December 31. Taxes are billed the following December 1 and due the subsequent March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The Library's tax levy for the 2005 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

<u>Source</u>	<u>Purpose</u>	<u>Date of Authorization</u>	<u>Maximum Authorized</u>	Less: <u>Required Reductions (State Law)</u>	<u>Maximum Allowable Millage</u>	<u>Tax Levy</u>
Voted	Operating	8/98	.5 mil	(.0533)	.4467	.4467

HAMBURG TOWNSHIP LIBRARY
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June 30, 2006

V. OTHER INFORMATION

A. Defined Contribution Plan

The Library provides all of its full-time employees with a defined contribution retirement plan provided through Hamburg Township and administered by Manulife Financial. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by Board resolution, the Library contributes 10 percent of employees' gross earnings annually to the plan. The plan may be amended by Board resolution. The Library's current year contribution was \$14,338 for the three full-time employees covered under the plan.

B. Risk Management

The Library, through Hamburg Township, is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage, and pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with Hamburg Township Library and the pools to which it belongs in any of the past three fiscal years.

C. Sewer Billing

In August 2004, the Library analyzed the actual amount of sewer usage that the new library facility uses and compared it to the estimated amount that Hamburg Township had been billing the Library for the period of June 2001 through June 2004. On March 21, 2006, the Hamburg Township Board approved adjusting the amounts to be billed to the Library for sewer usage from 12 to 4 reu's and crediting them with \$9,169 for prior billings, which will be applied to future sewer bills. The amount receivable from the Township has been reflected in the balance sheet.